Financial Statements

INTRODUCTION

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Housing and Urban Development, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515 (b)). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The principal financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements included in this annual report are as follows:

- Consolidated Balance Sheet;
- Consolidating Statement of Net Cost;
- Consolidating Statement of Changes in Net Position;
- Consolidated Statement of Budgetary Resources; and
- Consolidated Statement of Financing.

These financial statements include all of HUD's activities, including those of the Federal Housing Administration and the Government National Mortgage Association. All of HUD's budget authority is covered by these financial statements.

Department of Housing and Urban Development
Consolidated Balance Sheet
As of September 30, 2000

(Dollars in Millions)

	2000
ASSETS	
Intragovernmental	
Fund Balance with Treasury (Note 2)	$70,621
Investments (Note 4)	23,223
Accounts Receivable (Net) Note 6)	261
Other Assets (Note 7)	437
Total Intragovernmental Assets	$94,542
Accounts Receivable, Net (Note 6)	735
Credit Program Receivables (Note 8)	11,030
Other Assets (Note 7)	305
TOTAL ASSETS	$106,612
LIABILITIES	
Intragovernmental Liabilities	
Accounts Payable	$7
Debt (Note 10)	12,421
Subsidy Re-Estimate Payable	517
Other Intragovernmental Liabilities (Note 11)	5,351
Total Intragovernmental	$18,296
Accounts Payable	901
Liabilities for Loan Guarantees (Note 8)	7,554
Debt (Note 10)	2,814
Unearned Premiums	682
Debentures Issued to Claimants (Note 10)	218
Loss Reserves (Note 12)	533
Insurance Liabilities	174
Other Governmental Liabilities (Note 11)	941
TOTAL LIABILITIES	$32,113
NET POSITION	
Unexpended Appropriations (Note 13)	$60,870
Cumulative Results of Operations	13,629
TOTAL NET POSITION	$74,499
TOTAL LIABILITIES AND NET POSITION	$106,612

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Year Ended September 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
COSTS:							
Unsubsidized Program							
Intragovernmental	$477						$477
With the Public	2,532						2,532
Total Expenses	$3,009						$3,009
Less: Earned Revenues	(2,886)						(2,886)
Net Program Costs	$123						$123
Subsidized Program							
Intragovernmental	$111						$111
With the Public	391						391
Total Expenses	$502						$502
Less: Earned Revenues	(579)						(579)
Net Program Costs	($77)						($77)
Government National Mortgage Association							
With the Public		$69					$69
Total Expenses		$69					$69
Less: Earned Revenues		(832)					(832)
Net Program Costs		($763)					($763)
Section 8:							
Expenses With the Public/Net Program Costs			$8,823	$7,136	$31		$15,990
Low Rent Public Housing Loans and Grants							
Intragovernmental			$93				$93
With the Public			4,078				4,078
Total Expenses			$4,171				$4,171
Less: Earned Revenues			(3)				(3)
Net Program Costs			$4,168				$4,168
Operating Subsidies:							
Expenses With the Public/Net Program Costs			$2,889				$2,889
Housing for the Elderly and Disabled							
Intragovernmental				$345			$345
With the Public				733			733
Total Expenses				$1,078			$1,078
Less: Earned Revenues				(674)			(674)
Net Program Costs				$404			$404
Community Development Block Grants:							
Expenses With the Public/Net Program Costs					$5,012		$5,012
HOME:							
Intragovernmental					$3		$3
With the Public					1,496		1,496
Total Expenses/Net Program Costs					$1,499		$1,499
Other:							
Intragovernmental			$2	$21	$7	$273	$303
With the Public			711	711	1,286	6	2,714
Total Expenses			$713	$732	$1,293	$279	$3,017
Less: Earned Revenues				(47)	(8)	93	38
Net Program Costs			$713	$685	$1,285	$372	$3,055
Costs Not Assigned to Programs			$152	$108	$84		$344
NET COST OF OPERATIONS	$46	($763)	$16,745	$8,333	$7,911	$372	$32,644

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2000

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing (excluding FHA)	Community Planning and Development	Other	Consolidated
Net Cost of Operations	$46	($763)	$16,745	$8,333	$7,911	$372	$32,644
Financing Sources (other than exchange revenue)							
Appropriations Used	(1,124)		(16,748)	(8,720)	(7,848)	(5)	(34,445)
Imputed Financing	(11)					(38)	(49)
Transfers (In) / Out	436			73		(307)	202
Other Financing Sources				35			35
Net Results of Operations	($653)	($763)	($3)	($279)	$63	$22	($1,613)
Prior Period Adjustments	(8)				(13)		(21)
Net Change In Cumulative Results of Operations	($661)	($763)	($3)	($279)	$50	$22	($1,634)
Change in Unexpended Appropriations	(837)		12,958	(11,388)	1,431	(95)	2,069
Change in Net Position	($1,498)	($763)	$12,955	($11,667)	$1,481	($73)	$435
Net Position-Beginning of Period	(9,560)	(6,556)	(17,275)	(11,613)	(29,240)	(690)	(74,934)
Net Position-End of Period	($11,058)	($7,319)	($4,320)	($23,280)	($27,759)	($763)	($74,499)

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidated Statement of Budgetary Resources
For the Year Ended September 2000
(Dollars in Millions)

	2000
BUDGETARY RESOURCES:	
Budget Authority	$27,842
Net Transfers, Current Year Authority	130
Unobligated Balance – Beginning of Year	44,783
Net Transfers Prior Year Balance, Actual	(124)
Spending Authority from Offsetting Collections	16,283
Adjustments	
Recoveries of PriorYear Obligation	2,468
Permanently Not Available	
Cancelled-Expired and NoYear Accts	(54)
Enacted Recissions PriorYear Balance	(2,700)
Capital Trans and Debt Redemption	(2,940)
Other Authority Withdrawn	(165)
TOTAL BUDGETARY RESOURCES	$85,523
STATUS OF BUDGETARY RESOURCES:	
Obligations Incurred	$41,328
Unobligated Balances Available	14,436
Unobligated Balances Not Yet Available	29,759
TOTAL STATUS OF BUDGETARY RESOURCES	$85,523
OUTLAYS:	
Obligations Incurred	$41,328
Less: Spending Authority From Offsetting Collections and Adjustments	16,283
Actual Recoveries-Prior Year Obligations	2,468
Obligated Balance, Net Beginning of Period	105,196
Obligated Balance Transferred, Net	
Less: Obligated Balance, Net – End of Period	97,713
TOTAL OUTLAYS	$30,060

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidated Statement of Financing
For the Year Ended September 2000
(Dollars in Millions)

	2000
OBLIGATIONS AND NONBUDGETARY RESOURCES	
Obligations Incurred	$41,328
Spending Authority from Offsetting Collections and Adjustments	(16,213)
Recoveries-Prior Year Obligations	(2,468)
Financing Imputed for Cost Subsidies	49
Transfers In (Out)	
Exchange Revenue Not in the Budget	64
Other	8
TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES	$22,768
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	
Change in Amount of Goods, Services and Benefits Ordered, but not yet Received or Provided	$7,309
Costs Capitalized on the Balance Sheet	2,155
Financing Sources that Fund Costs of Prior Periods	(11)
Other	(44)
TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	$9,409
COSTS THAT DO NOT REQUIRE RESOURCES	
Depreciation and Amortization	$6
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	70
Revaluation of assets & Liabilities	(1,127)
Loss of Disposition of Assets	728
Other	(3,171)
TOTAL COSTS NOT REQUIRING RESOURCES	($3,494)
FINANCING SOURCES YET TO BE PROVIDED	$3,961
NET COST OF OPERATIONS	$32,644

The accompanying notes are an integral part of these statements

Notes to Financial Statements
September 30, 2000

Note 1 – Entity and Mission

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was created as a Government corporation within HUD and administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created as a Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit.

Operating Subsidies are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **HOME Investments Partnerships** program provides grants to States, local Governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income Americans.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and home ownership. These programs comprise approximately 9.6 percent of HUD's consolidated assets and 8.4 percent of HUD's consolidated revenues and financing sources for fiscal 2000.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

C. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Fees received for commitments to subsequently guarantee mortgage-backed securities and commitments to fund mortgage loans are recognized when commitments are granted.

D. Appropriations and Moneys Received from Other HUD Programs

The General Insurance Fund (GI) and Special Risk Insurance Fund (SRI) were not designed to be self-sustaining. As a result, the National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of these Funds. For post-1991 loan guarantees, appropriations to the GI and SRI Funds are made at the beginning of each fiscal year to cover estimated losses on loans to be insured during that year. For pre-1992 loan guarantees, the FHA has permanent indefinite appropriations authority to finance the cash requirements of operations.

HUD records moneys received from other HUD programs, such as interest subsidies and rent supplements, as revenue for the liquidating accounts when services are rendered. Moneys received for the financing accounts are recorded as an addition to the liability for loan guarantees when collected.

E. Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. The following shows HUD's fund balances with the U.S. Treasury as of September 30, 2000 (dollars in millions):

Description	2000
Revolving Funds	$10,635
Appropriated Funds	59,909
Trust Funds	77
Total – Fund Balance	$70,621

An immaterial difference exists between HUD's recorded Fund Balance with the US Treasury and the US Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are revised at the beginning of the following fiscal year. During FY 2000 the Department made a concerted effort to clean up its fund balance with Treasury accounts, so an immaterial amount of older items were written off.

F. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations. FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, as a result of Credit Reform, cash collected on insurance endorsed on or after October 1, 1991, is no longer available to invest in U.S. Government securities, and may only be used to finance claims arising from insurance endorsed during or after fiscal 1992. FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments from pre-fiscal year 1992 insurance endorsements. However, management does not expect early liquidation of any U.S. Government Securities and believes it has the ability to hold these securities to maturity.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

G. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. During fiscal 2000, FHA continued to take single family assignments on those defaulted notes that were in process at the time the assignment program was terminated. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Multifamily and single family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees", as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991, (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgage or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

H. Liability for Loan Guarantees

The liability for loan guarantees (LLG) related to Credit Reform loans (made after October 1, 1991) is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

The pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for defaults which are considered probable but have not been reported to FHA.

I. Full Cost Reporting

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

J. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the FECA, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was $75 million as of September 30, 2000. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

K. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for actual or probable defaults of FHA-insured mortgage loans. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves are based on management's judgment about historical claim and loss information and current economic factors.

L. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under CSRS, employees can contribute up to 5 percent of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2000 was $68 million.

M. Federal Employee and Veteran's Benefit

The Department's Federal Employee and Veteran's benefit expenses totaled approximately $102 million for fiscal 2000; this amount includes $16 million to be funded by the OPM. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

Note 3 – Commitments Under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into, before, or after 1988.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year, the effect of which substantially increases HUD's net position.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2000 (dollars in millions):

	Commitments Funded Through		
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Total Contracted Commitments
Section 8 Rental Assistance	$17,422	$28,622	$46,044
Community Development Block Grants	9,017	–	9,017
HOME Partnership Investment Program	4,092	–	4,092
Operating Subsidies	1,590	–	1,590
Low Rent Public Housing Grants and Loans	8,580	29	8,609
Housing for Elderly and Disabled	3,981	–	3,981
Section 235/236	78	10,620	10,698
All Other	6,650	81	6,731
TOTAL	$51,410	$39,352	$90,762

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2000, $36.3 billion relates to project-based commitments, and $9.7 billion relates to tenant-based commitments.

With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2000 (dollars in millions):

Programs	Administrative Commitments Funded Through		
	Unexpended Appropriations	Permanent Indefinite Appropriations	Total Reservations
Section 8 Rental Assistance Project-Based	–	$505	$505
Section 8 Rental Assistance Tenant-Based	–	8	8
Community Development Block Grants	$630	–	630
HOME Partnership Investment Program	148	–	148
Low Rent Public Housing Grants and Loans	1,568	–	1,568
Housing for Elderly and Disabled	2,385	73	2,458
All Other	1,205	4	1,209
TOTAL	$5,936	$590	$6,526

Note 4 – Investments

The U.S. Government securities are non-marketable intragovernmental securities. Interest rates are established by the U.S. Treasury and during fiscal 2000 ranged from 5.25 percent to 7.87 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2000, were as follows (dollars in millions):

Fiscal Year	Cost	Un-amortized Premium (Discount)	Net Investments	Unrealized Gain	Market Value
FY 2000	$23,450	$(227)	$23,223	$419	$23,642

Note 5 – Entity and Non-Entity Assets

The following shows HUD's assets as of September 30, 2000 (dollars in millions):

Description	Entity	Non-Entity	Total
Intragovernmental			
Fund Balance with Treasury	$70,302	$319	$70,621
Investments	23,223	–	23,223
Accounts Receivable	261	–	261
Other Assets	429	8	437
Total Intragovernmental Assets	$94,215	$327	$94,542
Accounts Receivable	428	307	735
Loan Receivables and Related Foreclosed Property	11,030	–	11,030
Other Assets	231	74	305
TOTAL ASSETS	$105,904	$708	$106,612

Note 6 – Accounts Receivable

Section 8 Settlements

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are "collected" by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2000, this amount totaled $359 million.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2000, HUD was due $307 million.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2000 (dollars in millions):

Description	2000
Section 8 Settlements	$359
Bond Refundings	307
Other Receivables	330
TOTAL	$996

Note 7 – Other Assets

The following shows HUD's Other Assets as of September 30, 2000 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Receivables from unapplied disbursements	$335	–	–	$335
Section 312 Rehabilitation Loan Program Receivables	5	–	–	5
Mortgagor Reserves for Replacement – Investment	8	–	–	8
Other Assets	–	$89	–	89
TOTAL INTRAGOVERNMENTAL ASSETS	$348	$89	–	$437
Receivables Related to Asset Sales	41	–	–	41
Receivables Related to Credit Program Assets	96	–	–	96
Equity Interest in Multifamily Mortgage Trust 1996	1	–	–	1
Premiums Receivable	54	–	–	54
Property and Equipment	–	–	$27	27
Mortgagor Reserves for Replacement – Cash	74	–	–	74
Other Assets	–	9	3	12
TOTAL	$614	$98	$30	$742

Note 8 – Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal 1992, and the resulting direct loans or defaulted guaranteed loans net of allowance for estimated uncollectable loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans are governed by the Federal Credit Reform Act of 1990, and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2000:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund

5. All Other
   a) Revolving Fund
   b) Flexible Subsidy
   c) CDBG, Section 108(b)
   d) Public and Indian Loan Guarantee
   e) Loan Guarantee Recovery Fund
   f) Public and Indian Housing Loan Fund

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) (dollars in millions):

	2000				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$56	$2	$(32)	–	$26
Housing for Elderly and Disabled	7,923	83	(23)	$8	7,991
Low Rent Public Housing Loans	10	3	1	–	14
All Other	927	27	(652)	2	304
TOTAL	$8,916	$115	$(706)	$10	$8,335

C. Direct Loans Obligated After FY 1991 (dollars in millions):

	2000				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$1	$ –	$(2)	$ –	$ (1)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

	2000				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$2,305	$221	$(1,914)	$370	$982

E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

	2000				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$647	$7	$(1,218)	$2,278	$1,714

	2000
Total Credit Program Receivables and Related Foreclosed Property, Net	**$11,030**

F. Guaranteed Loans Outstanding (dollars in millions):

	2000	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$590,000	$544,601
All Other	1,863	1,863
TOTAL	$591,863	$546,464

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

	2000		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
FHA Programs	$7,195	$327	$7,522
All Other	–	32	32
TOTAL	$7,195	$359	$7,554

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

	2000				
Loan Guarantee Programs	Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	$98,860	$2,385	$(4,594)	$461	$(1,748)
All Other	–	11	–	–	11
TOTAL	$98,860	$2,396	$(4,594)	$461	$(1,737)

I. Foreclosed Property:

The average holding period of single family properties is approximately 7 months while the average holding period of multifamily properties is 8 years. Additional requirements are usually attached to FHA's foreclosed property to restrict future use or disposal of those assets. The following shows FHA's number of foreclosed properties resulting from loans and loan guarantees as of September 30, 2000:

	Pre-1992		Post-1991	
Fiscal Year	Single Family	Multifamily	Single Family	Multifamily
FY 2000	9,229	62	24,869	2

FHA's outstanding principal balance of foreclosure proceedings in process as of September 30, 2000, was as follows (dollars in millions):

	Pre-1992		Post-1991	
Fiscal Year	Single Family	Multifamily	Single Family	Multifamily
FY 2000	$0.2	$116	$0.1	$22

FHA's number of properties in foreclosure proceedings in process as of September 30, 2000, was as follows:

	Pre-1992		Post-1991	
Fiscal Year	Single Family	Multifamily	Single Family	Multifamily
FY 2000	4	2	2	3

Note 9 – Liabiilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2000 (dollars in millions):

Description	Covered	Not-Covered	Total
Intragovernmental			
Accounts Payable	$7	–	$7
Subsidy Re-Estimate Payable	517	–	517
Debt	7,420	$5,001	12,421
Other Intragovernmental Liabilities	5,334	17	5,351
TOTAL INTRAGOVERNMENTAL LIABILITIES	$13,278	$5,018	$18,296
Accounts Payable	901	–	901
Liabilities for Loan Guarantees	7,554	–	7,554
Unearned Premiums	682	–	682
Debentures Issued to Claimants	218	–	218
Insurance Liabilities	174	–	174
Loss Reserves	533	–	533
Debt	75	2,739	2,814
Other Liabilities	805	136	941
TOTAL LIABILITIES	$24,220	$7,893	$32,113

Note 10 – Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2000 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$1,507	$(77)	$1,430
Held by the Public	3,211	(179)	3,032
Total Agency Debt	$4,718	$(256)	$4,462
Other Debt:			
Debt to the U.S. Treasury	$12,827	$(1,847)	$10,980
Debt to the Federal Financing Bank	14	(3)	$11
Total Other Debt	$12,841	$(1,850)	$10,991
TOTAL DEBT	$17,559	$(2,106)	$15,453
Classification of Debt:			
Intragovernmental Debt			$12,421
Debt held by the Public			2,814
Debentures Issued to Claimants			218
TOTAL DEBT			$15,453

The beginning balances were reclassified to include the fiscal 2000 accrued interest payable related to intra-governmental debt to comply with fiscal 2000 U.S. Treasury crosswalk changes from the SGL Chart of Accounts to OMB Form and Content Statements. These accrued interest payables were reported as intragovernmental accounts payable in fiscal 1999.

Interest paid on borrowings during the year ended September 30, 2000, was $1.1 billion. The purpose of these borrowings are discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Fiscal 2000 interest rates ranged from 7.44 percent to 11.06 percent.

In fiscal 2000, FHA borrowed $703 million from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 5.36 percent to 7.59 percent during fiscal 2000.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, HAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the HAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 2.25 percent to 6 percent for fiscal 2000. The borrowings from the FFB have terms up to 40 years; the borrowings from the private sector have terms up to 30 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent for fiscal 2000.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.00 percent to 13.38 percent in fiscal 2000. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

Note 11 – Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2000 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	$287	$287
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	$4,451	–	4,451
Miscellaneous Receipts Payable to Treasury	591	–	591
Other Liabilities	–	5	5
TOTAL INTRAGOVERNMENTAL LIABILITIES	$5,042	$309	$5,351
Other Liabilities			
FHA Other Liabilities	$34	$250	$284
FHA Escrow Funds Related to Mortgage Notes	–	159	159
Ginnie Mae Accounts Payable and Accrued Liabilities	–	42	42
Deferred Credits	–	213	213
Deposit Funds	–	85	85
Accrued Unfunded Annual Leave	61	–	61
Federal Employee and Veteran's Benefit	75	–	75
Other	22	–	22
TOTAL OTHER LIABILITIES	$5,234	$1,058	$6,292

Note 12 – Loss Reserves

For fiscal 2000, Ginnie Mae established loss reserves of $533 million, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights which inure to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

Note 13 – Unexpended Appropriations

HUD receives appropriations on both an annual and multiyear basis for all non-revolving fund activity. Unexpended appropriations are amounts not yet expended, which have not lapsed, been rescinded, or been withdrawn. The following is an analysis of HUD's fiscal 2000 Unexpended Appropriations (dollars in millions):

Description	Unobligated Available	Unobligated Unavailable	Undelivered Orders	Accounts Receivable from Public	Total
FHA – Subsidized Programs	$948	$36	$78	–	$1,062
FHA – Unsubsidized Programs	9	–	80	–	89
Section 8 Rental Assistance	10	3	17,584	$3	17,600
CDBG	888	15	9,017	5	9,925
HOME	189	–	4,092	1	4,282
Operating Subsidies	55	1	1,590	–	1,646
Low Rent Public Housing Loans and Grants	1,641	–	7,893	731	10,265
Section 202/811	2,687	–	3,974	–	6,661
All Other	2,515	124	6,700	1	9,340
TOTAL	$8,942	$179	$51,008	$741	$60,870

Note 14 – Financial Instruments With Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2000, was $590 billion and is discussed in Note 8F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2000, was approximately $604 billion. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2000, were $36 billion.

Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2000, Ginnie Mae issued a total of $42 billion in its multiclass securities program. The estimated outstanding balance at September 30, 2000, was $136 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2000, was $1.8 billion. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 15 – Contingencies

Lawsuits and Other

HUD is party in various legal actions and claims brought against it. In the opinion of HUD's management and General Counsel, the ultimate resolution of these legal actions and claims will not materially affect HUD's financial position or results of operations for the fiscal year ended September 30, 2000. Payments made out of the Claims, Judgments and Relief Acts Fund in settlement of the legal proceedings are subject to the Department of Justice's approval.

A case was filed by owners of 43 multifamily projects regarding alleged breach of owners' mortgage contracts effected by the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA) and the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). The Court of Federal Claims has ruled that the project owners' mortgage contracts had been breached by implementation of ELIHPA and LIHPRHA, and held a trial in November 1996 to determine damages, if any, with respect to that claim. The court awarded $3,061,107 in damages to the Plaintiffs for four "test" properties jointly selected by the parties. The United States appealed this judgment. On December 7, 1998, the United States Court of Appeals for the Federal Circuit reversed the judgment of the Court of Federal Claims, holding that ELIHPA and LIHPRHA did not breach contract between the plaintiffs and HUD. Specifically, the Court of Appeals ruled that the requisite privity of contract did not exist between the owners and HUD with respect to prepayment of the mortgage loans so as to make HUD liable to the owners for breach of contract. The court based its holding on the fact that the contractual provision allowing prepayment appears only in the riders to the mortgage notes, to which HUD is not a party. The Federal Circuit remanded the action to the Court of Federal claims for consideration of the plaintiffs' takings claim. On March 11, 1999, the Federal Circuit denied rehearing and declined rehearing *en banc.* On October 4, 1999, the United States Supreme Court denied certiorari.

In April 2000, the Court of Federal Claims held that because plaintiffs had chosen not to pursue their prepayment options through the statutorily-required process, their takings claims were not ripe for review. The court declined to accept the plaintiffs' contention that application to HUD for permission to prepay would have been futile. HUD's motion for summary judgment was granted as to both the takings claims and the breach of contract claim; and the complaint was dismissed. On June 23, 2000, plaintiffs in this case filed a notice of appeal from the April 25, 2000, order of the Court of Federal Claims to the Federal Circuit. The Government filed its appellate brief on October 19, 2000, and the Federal Circuit has the case under consideration.

In several of the other LIHPRHA cases, the Court of Federal Claims Judge dismissed the complaint of the owners of 249 low and moderate-income projects in April 1998, ruling, in addition to absence of a contract breach by the United States, that the plaintiffs' claim that the federal legislation had effected a taking of plaintiffs' property without just compensation was not ripe for review since the plaintiffs had never applied to HUD for permission to prepay pursuant to the legislation. The plaintiffs appealed this judgment. On October 4, 1999, the United States Court of Appeals for the Federal Circuit affirmed the judgment. On November 10, 1999, the plaintiffs petitioned for rehearing and suggested rehearing *en banc.* On December 27, 1999, the Federal Circuit denied plaintiffs petition for rehearing and declined rehearing *en banc.* On June 29, 2000, the United States Supreme Court denied certiorari.

The United States intends to continue to defend the remaining FIHPRHA cases vigorously. HUD is unable at this time to form a judgment about the likelihood of an unfavorable outcome, or to make an estimate of the amount or range of potential loss if the plaintiffs should prevail. Any adverse judgment would be paid out of the permanent indefinite appropriation established by 31 U.S.C. Section 1304 (the Government's Judgment Fund).

Note 16 – Intragovernmental Financial Activities

HUD's financial activities interact with and are dependent upon those of the Federal government as a whole. Specifically, HUD is subject to financial decisions and management controls of the Office of Management and Budget (OMB). As a result of its relationship with other Federal government entities and OMB, HUD's operations may not be conducted, nor its financial position reported, as they would if HUD were a separate and unrelated entity.

HUD's financial statements are not intended to report the Department's proportionate share of the total federal deficit or of public borrowings by the Treasury, including interest thereon.

A. Claims, Judgments, and Relief Acts Fund

Most legal actions that affect HUD involve an amount in excess of $2,500, with the exception of on-the-job injury claims as discussed in Note 2 and legal actions pertaining to the FHA and Ginnie Mae programs, are paid from the Claims, Judgments, and Relief Acts Fund maintained by the Department of the Treasury and administered by the General Accounting Office and the Department of Justice. HUD is not required to reimburse this fund for payments made on its behalf. During fiscal 2000 no material amounts were paid to settle actions against HUD.

B. Other Interagency Transactions

HUD maintains various agreements with other federal agencies under the Economy and Efficiency Act. The revenues, expenses, receivables and payables for these agreements for fiscal 2000 are not material. HUD's two largest federal transactions are with the General Services Administration (GSA) for the use and upkeep of HUD facilities, and the Department of Agriculture's National Finance Center for the processing of payroll and related benefits.

HUD also manages transfer appropriations from the Appalachian Regional Commission (ARC). The ARC funding is used to facilitate joint Federal and State efforts to provide basic facilities essential to economic growth in Appalachia. These funds are included in the "All other" category in the financial statements.

Note 17 – Excess Rental Subsidies

In support of HUD's fiscal year 2000 financial statements, the Department developed statistical estimates of the extent of housing rental subsidy overpayments attributed to unreported tenant income, based on a computer matching effort with Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. In addition, the results of a separate periodic HUD quality control review of subsidy program rent determinations were released in an interim report for internal review on January 19, 2001, providing further information on the nature and significance of other types of rental subsidy payment errors attributable to the performance of public housing authorities, owners and agents (POAs) responsible for program administration.

Under HUD's rental assistance housing programs, tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. New applicants provide certain information on household characteristics, income, assets and expense activities used in determining the proper amount of rent they are to pay. Existing tenants are required to recertify their income on an annual basis, and in certain other circumstances when there are significant changes in household income. Applicant or tenant failure to correctly estimate their income, or the failure of the responsible POA to correctly calculate or timely recertify the tenant's rental assistance, may result in the Department's overpayment or underpayment of subsidies.

Estimates Based on Computer Matching on Tenant Income

In developing the estimate of subsidy overpayments attributed to underreporting of tenant income, the Department selected a sample of 1,000 households assisted in calendar year 1999 (the most recent period for which data was available for computer matching purposes), and compared household income reported to HUD's automated tenant databases to income data in SSA and IRS databases. To establish a reasonable and cost effective methodology for developing this aspect of the subsidy overpayment estimate, a $3,000 income discrepancy threshold was used. HUD refined its rental subsidy overpayment estimation methodology this year, to provide more realistic factors to properly adjust for the allowable exclusions of sporadic tenant income, as well as interim income increases of public housing tenants. Source documents in support of subsidy calculations on sample cases exceeding the $3,000 income discrepancy threshold were obtained from the responsible POA. The source documents were examined to determine if the income discrepancies would affect the computation of the correct HUD rental subsidy amount, or if the income discrepancies were attributed to other causes not affecting the subsidy amount, such as mistakes during the certification/re-certification interview, data entry errors in any of the five systems involved in the matching process, timing differences in the income data being matched, and tenant income excluded by program regulation.

Based on the results of the review of the source documents on the statistical sample selection, the Department projects, with 95 percent confidence, that the amount of subsidy overpayments for the 4.32 million households receiving assistance during calendar year 1999 was $617 million ± $101 million. This estimate of subsidy overpayments attributable to underreporting of tenant income represents approximately 3.27 percent of the $18.883 billion in total rental subsidies paid by HUD in fiscal 2000.

Results of Quality Control Review of Rental Subsidy Determinations

HUD's interim report on "Quality Control for Rental Assistance Subsidies Determinations" was based on an evaluation of the most recent rent calculations for a representative sample of 2,403 households receiving assistance in fiscal 2000. This study was not performed for the purpose of estimating and disclosing in HUD's financial statements the extent of excess rental subsidies paid by HUD during fiscal 2000. The study found that 60 percent of the rent calculations had some type of administrative or calculation component error contributing to a subsidy overpayment or underpayment situation. Errors were considered if they exceeded a $5 impact threshold on monthly subsidy payment amounts. The study projected, with 95 percent confidence, annual subsidy overpayments of $1.939 billion ± $188 million, and annual subsidy underpayments of $685 million ± $126 million, due to errors attributable to program administration by POAs. This resulted in a net overall gross payment error estimate of $1.254 billion, which represents approximately 6.6 percent of the rental subsidies paid by HUD in fiscal year 2000. The interim report on this study is still subject to review and comment by HUD program officials, and has not been subjected to independent verification and validation.

Since there is overlap between error factors disclosed in both the computer matching effort with SSA/IRS data and the quality control study, the improper payment estimates from those two sources should not be considered totally additive. In addition, the entire estimated amount of the above subsidy overpayment may not necessarily be available for budgetary reductions or program cost recoveries. Rental housing needs surveys indicate that HUD's limited housing subsidy programs serve less than one-third of households eligible for participation. In many cases, it is local policy to correct subsidy calculations prospectively for tenant income changes, but not retroactively. Furthermore, the low-income nature of the assisted population, and the cost of the pursuit of recovery, make even modest levels of cost recoveries unlikely from a cost-benefit perspective, based on prior HUD pilot project experiences. However, reductions of rental subsidy overpayments would increase funding available to assist other eligible households. Also, subsidy underpayment situations could increase overall program costs or decrease future benefits if retroactively corrected. HUD has actions in-process and under consideration to reduce all sources of subsidy payment error, to better assure that payments are made in accordance with program statutory and regulatory requirements and intent.

Note 18 – Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2000 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$938	$1,837	$(899)
Community and Regional Development	51	265	(214)
Income Security	102	(73)	175
Administration of Justice	–	–	–
Miscellaneous	250	(263)	513
TOTAL INTRAGOVERNMENTAL	$1,341	$1,766	$(425)
With the Public:			
Commerce and Housing Credit	$3,020	$3,134	$(114)
Community and Regional Development	5,556	6	5,550
Income Security	28,200	30	28,170
Administration of Justice	35	–	35
Miscellaneous	(572)	–	(572)
TOTAL WITH THE PUBLIC	$36,239	$3,170	$33,069
TOTAL:			
Commerce and Housing Credit	$3,958	$4,971	$(1,013)
Community and Regional Development	5,607	271	5,336
Income Security	28,302	(43)	28,345
Administration of Justice	35	–	35
Miscellaneous	(322)	(263)	(59)
TOTAL:	$37,580	$4,936	$32,644